UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON AGRICULTURE

HEARING

ON

THE STATUS OF INTERNATIONAL TRADE NEGOTIATIONS

STATEMENT OF

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Mr. Chairman and members of the Committee, I am Squire Smith, CEO of SGS Inc. I am a citrus grower and grove care taker in Central Florida. I am also President of Florida Citrus Mutual. I am pleased to present testimony today on the status of international trade negotiations, and how both the ongoing regional and multilateral negotiations affect the US and Florida citrus industry. FCM is a voluntary cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. FCM's membership accounts for more than 90 percent of Florida's citrus growers and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

Mr. Chairman, we are at a critical juncture in the life of the Florida citrus industry. When I appeared last Fall before the Subcommittee on Livestock and Horticulture, the nearby futures price of frozen concentrated orange juice had fallen to 67.3¢ per pound of solids, the lowest price recorded in 3 years. The situation since that time has worsened dramatically. The futures price as of Monday was 57 cents per pound, the lowest in 27 years. This is the most reliable indicator of the U.S. wholesale price of orange juice, and the wholesale price is, in turn, the strongest determinant of the price of oranges for processing. Many of our members will finish this season at a financial loss, and those that survive in the business will spend the next several years working to recover. As an unsubsidized agricultural industry facing essentially a single, larger, highly concentrated foreign competitor – Brazil – our need is very straightforward: the tariff on orange juice must not be reduced under the Doha Round, the FTAA, or any agreement to which Brazil is a party.

Opening new export markets and growing the US market are certainly important goals, toward which we have been working steadily since the mid-1980's. But they are goals which cannot be met in the near future under any condition, since most of the world's juice is produced in two countries, the US and Brazil, and consumed in the US and Western Europe. ***While the industry and consumers wait for the improvements of***

markets, growth of per capita GDP outside the more developed countries, and the development of the growth of nascent industries in Central America and elsewhere, supported by recent US Free Trade Agreements, the tariff on Brazilian juice cannot be reduced.

Another unique reality of our market is that the largest producer, Brazil, historically exports 90-95% of its production every year, and there has been very little change in this pattern over the past 20 years. Furthermore there are only 5 major producers in Brazil, controlling a significant portion of world production and sales. With full access to the US market already, the elimination of the Florida industry through tariff elimination will benefit neither US consumers nor foreign producers.

Finally, decisions about planting citrus groves in both Florida and Brazil have long-term consequences which are not easily reversed by economic and trade policy. If expected future returns in the US are depressed further by anticipated tariff cuts, the support industries will also see negative impacts; likewise, any anticipation of increased production in Brazil will result in additional plantings that will yield excessive levels of fruit and depressed prices for many years.

These factors must be borne in mind when evaluating the current progress of trade negotiations.

The Doha Round

US negotiators expended considerable effort to reach compromise agriculture negotiating language at the Cancun Ministerial. Those efforts continue today, directed toward achieving a framework understanding this summer, using the Cancun Derbez text as a starting point. However, we understand that even the very modest accommodations for import-sensitive situations like citrus, that would be included in that text, are under fire by our trading partners, including Brazil. We urge the Committee to send a clear message to our trade negotiators: unsubsidized, import-sensitive agricultural industries will not be sacrificed on the altar of subsidized commodity export enhancement. The opportunity must remain in any final framework agreement for developed countries to provide for unique situations like citrus.

The Free Trade Area of the Americas

The FTAA negotiations have slowed down with impasses over the structure and coverage of the Agreement. Again, citrus risks being the odd man out as the US takes the position that subsidies cannot be negotiated in a regional context, without the EU at the table. While this is certainly a reasonable position, Brazil will surely press even more vigorously for tariff cuts on commodities that are not subsidized. This is an unacceptable position, and would spell the end of the citrus industry in Florida. While subsidies are used to help level the playing field for US agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States.

The Administration's FTAA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, ***while leaving all domestic subsidies off the table.*** In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy. Not only is this an unsound approach to trade policy, it is also guaranteed <u>not</u> to meet any of the stated objectives of trade liberalization: foreign industrial growth, lower prices to consumers, and increasing living standards. Furthermore, it completely undermines any domestic policy benefits which might be targeted to such a non-subsidized sector, through elimination of the trade policy equivalent of a domestic policy support program.

The Impact of Tariff Reduction on Florida

As we have noted in numerous statements to USTR and the USITC, the negative economic affects of any duty-free imports of Brazilian orange juice on the Florida industry that grows oranges for processing are a very serious matter. Brazil is the largest orange juice producer in the world, while the United States is the largest orange juice consumer. Brazilian orange juice is under-priced for many reasons, including numerous national currency devaluations (which lower the costs of Brazilian production inputs, i.e., labor); inadequate and unenforced labor, health and environmental laws; dumping practices; oligopoly market behavior; and past receipt of countervailable subsidies. Duty-free or reduced-duty Brazilian orange juice would further depress the wholesale prices of U.S. orange juice and the on-tree prices of Florida oranges.

Currently, the **wholesale price** of U.S. orange juice (as measured by the nearby futures price of FCOJ) is at its **lowest level since 1977!** [1] **On-tree prices** of Florida oranges for processing, which are already approaching their **lowest level in several decades,** are expected to be well **below their break-even point though the end of the season.**[2] Economist Mark Brown of the Florida Department of Citrus has estimated the medium on-tree price of early/midseason oranges for processing at $1.81/box in CY2003/04.[3] During CY2002/03 the lowest cost cultural program for Hamlin (early season) oranges in Southwest Florida was $2.49/box in total on-tree (prior to harvest)

[1] New York Board of Trade nearby futures price of FCOJ (at http://www.fred.ifas.ufl.edu/citrus/data/OJFutures.pdf).
[2] *Citrus Summary*, FASS, USDA (at http://www.nass.usda.gov/fl/rtoc0ci.htm).
[3] *Florida Citrus Outlook, 2003-04 Season,* Mark Brown, Economic and Market Research Department, Florida Department of Citrus, Oct. 29, 2003, Table 19.

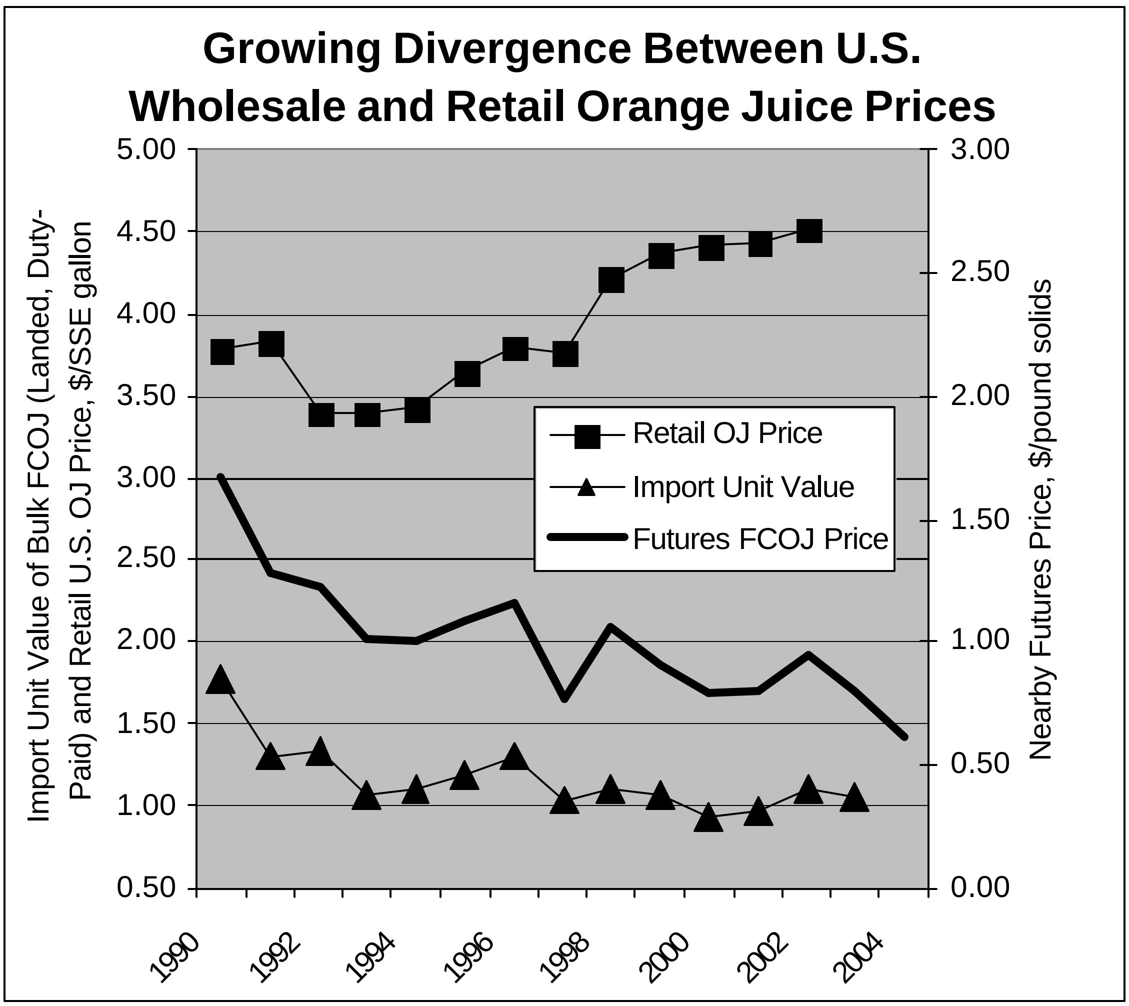
grower costs.[4] These sobering orange price forecasts are derived from near record crop forecasts for both Florida and Brazil during CY 2003/04.

The CY 2003/04 Florida orange crop is expected to be 23 percent larger than the CY 2002/03 crop;[5] while the CY 2003/04 Brazilian orange crop is expected to be **38 percent larger** than the CY 2002/03 crop.[6] These bumper crops, which are a function of natural conditions and yield of the trees, rather than any annual planting or cultivation decisions by the growers, will likely push world orange and orange juice supplies to new records, and Brazilian producers will have to export even more to the U.S., given the very small growth of their own insignificant domestic market. In combination with reduced U.S. orange juice consumption, these production volumes and low Brazilian prices will create conditions that many Florida growers will not survive.

As noted above, **the U.S. citrus industry does not receive any production subsidies**. The tariff on Brazilian orange juice is the only offset our industry receives, and its role is to provide only the most efficient U.S. orange growers and processors the opportunity to compete in U.S. and world markets that would otherwise be permanently dominated by the powerful Brazilian citrus oligopoly. The U.S. tariff on Brazilian orange juice also preserves healthy competition in the U.S. market for indigenous orange juice produced in the Andean countries, Costa Rica, Belize, Mexico, Honduras, the Dominican Republic, and many other developing countries with fledgling citrus industries, which benefit from trade preferences.

[4] *Budgeting Costs and Returns for Southwest Florida Citrus Production, 2002-03*, Ronald Muraro, Friz Roka and Robert Rouse, University of Florida, IFAS, Sept. 2003, Table 6.
[5] Estimate of 203 million boxes for the CY 2002/03 Florida orange crop, and 250 million boxes for the CY 2003/04 crop from "Citrus Production, January Forecast," FASS, USDA, Jan. 12, 2004.
[6] ABECitrus estimate of 260 million boxes for the CY 2002/03 Sao Paulo orange crop, and forecast of 360 million boxes for the CY 2003/04 crop made by the US Agricultural Attache in Brazil in "Brazil Citrus Annual 2003," *GAIN Report*, FAS, USDA, Dec. 17, 2003.

Preservation of competition among multiple suppliers provides a more moderating price influence than would be seen in a U.S. market controlled by the Brazilian citrus oligopoly. Recent experience in the U.S. market has shown that there is virtually no consumer price benefit resulting from declining wholesale orange juice prices; as bulk import and domestic FCOJ prices decline, ***consumer prices continue to rise*** (see chart below).



Source: Retail price data from ACNielsen (retail price data are for October-September marketing years; 1990/01 data are charted as 1990 and so on); U.S. import unit values are from official trade data of the U.S. Department of Commerce (2003 figure is based on

January-November 2003); and nearby futures prices from the NYBOT (2004 figure is based on January 2004 average and closing price on February 11, 2004).

Under those conditions, unlike production subsidies or support programs, U.S. tariffs on Brazilian juice are not paid for by U.S. taxpayers, either directly or indirectly. They are, instead, paid for by the very Brazilian processors and importers that are selling the under-priced and unfairly-traded bulk juice.

The large amount of domestic support bestowed on other U.S. agricultural industries allows them to compete abroad with the support of taxpayer dollars, and makes foreign tariff elimination an important strategic objective for them. In order to enhance their access to foreign markets, they often support the reciprocal elimination of both U.S. and foreign tariffs for all agricultural commodities. This is the opposite of the situation our industry faces. The U.S. industry would like to enhance our export markets, just as the U.S. program crop industries seek greater foreign market access. However, the simple fact is that the cost of producing orange juice is such that only developed country markets can be expected to support significant new market demand, regardless of where that juice is produced. Without continued strong consumption in the North American and European developed country markets, US citrus growers cannot expect to see rapid increases in demand in any currently less developed countries, until those countries experience increased GDP, personal income levels and higher consumption

The Florida citrus industry does not object to the improvement of U.S. ties throughout the world via stronger trading relationships and, in fact, we have supported many such programs over the years, such as the Caribbean Basin Initiative. However, our industry and global market are highly unique and import sensitive – not because we lack competitiveness, but because of the structure, dynamics and history of the Brazilian-dominated global orange juice industry. Florida orange growers are the most efficient in the world in terms of production yield per acre. Yet, for reasons well beyond Florida growers' control, our economic survival is contingent on the existence of the U.S. orange juice tariff on Brazilian juice. ANY reduction in the current tariff on orange juice under the FTAA, the WTO or any other agreement to which Brazil is a party would prove catastrophic for our industry, and very damaging to the State of Florida.

It is well established that any reduction in the U.S. orange juice tariff applying to Brazil would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire Florida citrus industry, the economic impact of which has recently been estimated at $9.13 billion in industry output, $4.18 billion in value-added activity, and 89,700 jobs.[7] Perhaps even most damaging to the U.S. economy is the fact that, since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually unleash the Brazilian oligopoly to raise U.S. orange juice prices. For all of these reasons, FCM strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

U.S. orange juice markets, particularly those throughout the EU, have also been increasingly plagued with Brazilian orange juice prices that frequently appear to be below their cost of production. The long-term annual average trend in the price of Brazilian orange juice exports has been downward during the past decade and a half. Such constant downward price pressure in foreign markets makes the exporting of U.S. orange juice nearly impossible. The modest growth in U.S. orange juice exports that occurred during the late-1990s, was more a function of the export incentives provided by the

[7] Alan Hodges, et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report,* EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 3.

import duty drawback program, than of the ability of U.S. producers to earn a fair price in export markets.

U.S. processors of Florida orange juice are eager to expand juice exports overseas, and they fully support the elimination of foreign orange juice tariffs. However, they are not naïve enough to believe that foreign tariff liberalization will bring them instant success abroad. Commercially processed orange juice is not a bulk basic commodity like wheat or milk powder, which are universally consumed throughout the world. Commercially processed orange juice is consumed primarily in high-income, developed countries. Not only that, but even if lucrative orange juice markets existed outside of the EU, Japan, Canada and a handful of wealthy cities, and even if orange juice tariffs were liberalized in these markets, the unsubsidized U.S. orange juice industry would stand little chance of competing with Brazil's extremely low price levels.

Brazil's orange juice export sales to all markets are denominated in U.S. dollars. When the Real is devalued, the cost of labor and other domestic production inputs, which are denominated in Reals, become cheaper relative to the price paid for the orange juice. The cost of grove labor as a percentage of the export price of Brazilian orange juice shrinks each time the Brazilian Real loses value against the U.S. dollar, thus, increasing the profit margin obtained by the Brazilian processor. The increase in profits then sends false market signals throughout the Brazilian citrus industry causing it to overplant and overproduce. The overproduction gives way to lowered international orange juice prices, which reduce the value of Florida's processing oranges and diminish growers' profits. However, further devaluation prevents the Brazilian industry from feeling the squeeze of lower international prices, and the cycle continues. In this way, the highly developed

Brazilian orange juice oligopoly is able to benefit from residing in a country with an underdeveloped and inflationary economy.

Grove closures in Florida would leave unemployed over 42,000 citrus grove workers in Florida alone, and jeopardize the existence of all U.S. juice extractors and processors that depend on domestic citrus. It would also have grave consequences for the following upstream suppliers of the U.S. juice orange industry:

- nurseries that supply replacement trees to citrus groves,
- suppliers of fertilizer, fungicide, herbicide and insecticide to citrus groves,
- suppliers of irrigation and spraying systems, mechanical harvesters and farm implements,
- financial institutions, especially merchant banks that have citrus exposure,
- insurance companies that serve the citrus industry, and
- freight companies that haul citrus to processing plants.

Since the land on which processing oranges are grown consists of very sandy soil, ideal for growing citrus but not many other agricultural products, and the volume of all other fruit juices extracted in the United States combined pales in comparison to orange juice, the above upstream industries could not exist if orange juice production were no longer viable. In addition, because the production of about 75 percent of all processing oranges is concentrated in Central and South Florida, entire counties in these regions would be ravaged and their base real estate values would tumble as thousands of groves would be abandoned, with no practical alternative land utilization.

CONCLUSION

The US citrus industry is just as concerned about developing export markets as producers of any of the program crops which appear regularly before the committee. But we cannot unilaterally disarm -- superior productivity notwithstanding -- and assume we will see an explosion of new demand. That takes time, and with only two major world suppliers right now, the elimination of one will leave world consumers without a choice, and the Florida economy in a shambles. The orange juice tariff on Brazilian imports must be maintained in all multilateral and regional negotiations.

I appreciate the opportunity to address this Committee and will be pleased to answer any questions.